

# OTC Derivatives Reforms

## Status of implementation and major challenges (The Japanese perspective)

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\* Any views expressed in this presentation are those of the author, and are not necessarily identical to the official views of the JFSA.

# **G20 Commitments**

- 1. Trade Reporting Requirement**
- 2. Central Clearing Obligation**
- 3. Trading Requirement**
- 4. Margin Requirements for Non-Centrally Cleared OTC Derivatives**
- 5. Implementation of CPMI-IOSCO Principles for FMIs**
- 6. Deference to Each Other in Cross-border Regulation and Supervision**

# 1. Trade Reporting Requirement

- ✓ **Mandatory reporting for a broad range of OTC derivative transactions since April 2013**
- ✓ **Direct reporting to JFSA permitted alongside reporting through TRs**
- ✓ **One TR currently designated by the JFSA**
- ✓ **Since May 2014, JFSA publishes aggregated data**
  - **Masking and blocking statutes of other jurisdictions could create difficulties for cross-border transactions**
  - **Use of LEIs is still optional**

## **2. Central Clearing Obligation**

- ✓ **Product coverage**
  - **Two products (Yen LIBOR IRS and i-Traxx Japan index CDS) designated for mandatory central clearing as from November 2012**
  - **Addition of Yen TIBOR IRS as from July 2014**
- ✓ **Covered entities**
  - **Extended in a staggered manner – will cover the main players in the market by December 2016 (banks, securities firms, and insurance companies)**
  - **For further extension of the coverage of the obligation, standardization and liquidity are key**
  - **Cross-border coordination mechanism not yet established**

### **3. Trading Obligation**

- ✓ **As from 1 September 2015, mandatory use of exchanges or other types of electronic trading platforms (ETPs) is enforced for Yen LIBOR IRS**
- ✓ **The definition of ETPs is relatively broad: i.e. having an order book and match the transactions with the order book, or with requests for quotes from no less than three counterparties**
- **Publication of trade information is limited to post-trade**

## **4. Margin Requirements for Non-Centrally Cleared OTC Derivatives**

- ✓ **JFSA published draft rules for comment in July 2014**
- ✓ **BCBS-IOSCO Working group on Margin requirements (WGMR) agreed to delay implementation of new margin requirements until September 2016**
- ✓ **Bilateral discussions taking place with US and EU regulators with industry feedback**
- **Major challenges still exist towards implementation, particularly with regard to SIMM models and documentation**

## **5. Implementation of CPMI-IOSCO Principles for FMIs**

- ✓ **Implementation of the CPMI-IOSCO Principles for FMIs is now on track**
- ✓ **Peer review by the FSB being conducted successively**
- ✓ **CPMI-IOSCO working on providing further guidance and granularity in the requirements under the Principles**
  
- **Consistency between rules of different jurisdictions becomes an issue where the requirements of the Principles are not granular**



## **6. Deference to Each Other in Cross-border Regulation and Supervision**

- ✓ **Based on a call by the G20, bilateral discussions have been underway in equivalence determinations leading to mutual recognition (EU) or substituted compliance (US)**
- ✓ **Japan considers equivalence of regulation and supervision of other jurisdictions in granting licenses to foreign CCPs and in designating foreign TRs.**
- **Full consistency is hard to achieve on a bilateral basis and takes an excessively long time**



# OTC Derivatives Market Reforms (FSB 9th Progress Report)

## Main Issues

### ● Trade reporting

- The majority of jurisdictions have trade reporting requirements in force.

### ● Central clearing

- The majority of jurisdictions are still in the process of implementing regulatory reforms.

### ● Higher capital for non-centrally cleared derivatives

- Most jurisdictions have made changes to their prudential frameworks to require it.


### ● Trading Platforms

- While the majority of jurisdictions have adopted legislative frameworks, the adoption of specific requirements continues to be limited.



	Trade Reporting	Central Clearing	Capital	Trading Platforms
Argentina	Yellow	Yellow	Light Blue	Yellow
Australia	Light Blue	Light Blue	Light Blue	Yellow
Brazil	Light Blue	Light Blue	Light Blue	Yellow
Canada	Light Blue	Yellow	Light Blue	Yellow
China	Light Blue	Light Blue	Yellow	Yellow
EU	Light Blue	Light Blue	Light Blue	Yellow
Hong Kong	Yellow	Yellow	Light Blue	Yellow
India	Light Blue	Yellow	Light Blue	Yellow
Indonesia	Light Blue	Yellow	Yellow	Red
Japan	Light Blue	Light Blue	Light Blue	Yellow
Korea	Light Blue	Yellow	Yellow	Red
Mexico	Light Blue	Yellow	Yellow	Yellow
Russia	Light Blue	Yellow	Light Blue	Red
Saudi Arabia	Light Blue	Yellow	Light Blue	Yellow
Singapore	Light Blue	Light Blue	Light Blue	Yellow
South Africa	Yellow	Yellow	Light Blue	Yellow
Switzerland	Yellow	Yellow	Light Blue	Yellow
Turkey	Yellow	Yellow	Yellow	Yellow
US	Light Blue	Light Blue	Yellow	Light Blue

 \* No existing authority to implement reform and no steps taken to adopt such authority

 \* Legislative framework or other authority is in force or has been published for consultation or proposed ~ Legislative framework or other authority is in force and public standards/requirements have been adopted.

 \* Legislative framework or other authority is in force and over 90% of transactions, standards/requirements are in force

**Thank you**

